

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-25 ISO-00 DODE-00 CIAE-00 PM-07 INR-10

L-03 NEA-10 NSAE-00 PA-04 RSC-01 PRS-01 SPC-03

USIA-15 SAJ-01 EB-11 COME-00 OMB-01 ABF-01 /094 R

DRAFTED BY TREASURY:MR.CROSSWHITE:HR

APPROVED BY EUR/RPM:EREHFELD

OSD/ISA:MR.MILLER

OSD/C:MR.UMBARGER

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R 112248Z MAR 74

FM SECSTATE WASHDC

TO USMISSION NATO

C O N F I D E N T I A L STATE 048623

E.O. 11652: GDS

TAGS: MCAP, NATO

SUBJECT: NATO INFRASTRUCTURE - INTERNATIONAL COMPETITIVE  
BIDDING AND EXCHANGE RATES

REFS: A. USNATO 1193

B. STATE 14733

C. USNATO 833

1. INFORMATION IN REF B WAS PROVIDED BECAUSE TREASURY  
THOUGHT PURPOSE OF THIS EXERCISE WAS TO MAKE THE EXCHANGE  
RATE CONSIDERATIONS IN BIDS AS NEUTRAL AS POSSIBLE, TO  
REDUCE ANY BIAS WHICH MIGHT FAVOR HOST COUNTRY BIDDERS,  
AND PARTICULARLY TO MAKE BIDS AS COMPETITIVE AS POSSIBLE.  
TWO DISTINCT POINTS WERE INCLUDED IN THE TREASURY PRO-  
POSAL: (1) BIDDING PERMITTED IN ANY NATO CURRENCY,  
AND (2) APPLICABLE EXCHANGE RATES. IN OUR JUDGMENT THE  
FIRST POINT IS MUCH MORE IMPORTANT THAN THE SECOND.

2. OUR BASIC CONTENTION IS THAT NATO WILL OBTAIN MORE  
COMPETITIVE BIDS IF BIDDERS CAN REDUCE THE NUMBER OF  
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FACTORS FOR WHICH THEY MUST MAKE ALLOWANCES WHEN BIDDING.

CURRENCY EXCHANGE RISK IS ONE OF THOSE FACTORS. WHERE BIDDERS CAN BID IN CURRENCIES ASSOCIATED WITH COSTS, THEY HAVE LESS NEED TO SPECULATE AND CAN REDUCE OR DELETE

THE NEED FOR INCLUDING EXCHANGE RISK HEDGES. IF A BIDDER WERE TO HAVE ALL OF HIS EXPENSES IN THE HOST COUNTRY, HE UNDOUBTEDLY WOULD BID IN THE CURRENCY OF THE HOST COUNTRY. IF A BIDDER WERE TO HAVE SIZABLE COSTS IN TWO OR MORE NATO COUNTRIES, HE WOULD BE BETTER ABLE TO ESTIMATE HIS COSTS AND PROFIT, IF HIS BID COULD BE DENOMINATED IN EACH OF THE CURRENCIES OF THE COUNTRIES IN WHICH HIS EXPENSES WOULD HAVE TO BE PAID.

3. TO HAVE BIDS IN CURRENCY OF HOST COUNTRY ONLY SHOULD RESULT IN THE LEAST COMPETITIVE BIDS, IF BIDDERS HAVE COSTS IN COUNTRIES OTHER THAN THE HOST COUNTRY (SINCE THERE HAS TO BE SPECULATION ON EXCHANGE RATE CHANGES IN ORDER TO COVER COSTS IN OTHER THAN HOST COUNTRY). ALSO, THIS PROCEDURE HAS A BUILT IN BIAS IN FAVOR OF HOST COUNTRY BIDDERS. TO PERMIT BIDS TO BE IN THE CURRENCY OF ANY NATO COUNTRY SHOULD RESULT IN THE MOST COMPETITIVE BIDS SINCE THERE NEED BE THE LEAST AMOUNT OF SPECULATION AS FAR AS CURRENCY EXCHANGE RISKS CONNECTED WITH COSTS ARE CONCERNED. ON THE OTHER HAND, THIS PROCEDURE WOULD OFFER A BIDDER GREATER OPPORTUNITY TO ENGAGE IN CURRENCY SPECULATION IN CONNECTION WITH BIDDING.

4. AS A COMPROMISE BETWEEN THE TWO EXTREMES MENTIONED IN PARA 3 ABOVE, THE FOLLOWING IS PROPOSED AS THE FOOTNOTE TO PARA 12 (I), AC/4-D/2261 (REV):

(1) PRICE QUOTATIONS MAY BE EXPRESSED IN THE CURRENCY OF THE HOST COUNTRY, THE CURRENCY OF THE COUNTRY OF THE BIDDER, OR A COMBINATION OF BOTH CURRENCIES. THE EVALUATION OF BIDS AND THE EXCHANGE RATE TO BE APPLIED WILL BE THAT APPLICABLE ON THE DATE OF THE OPENING OF THE PRICE ENVELOPES. THE APPLICABLE EXCHANGE RATES FOR COMPARISON SHALL BE THE MIDPOINT BETWEEN THE BUYING AND SELLING RATES OF THE CURRENCIES

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IN QUESTION IN TERMS OF THE HOST COUNTRY'S CURRENCY IN THE PRINCIPAL FINANCIAL CENTER OF THE HOST COUNTRY CONCERNED AT THE OFFICIAL FIXING, IF SUCH EXISTS, AND OTHERWISE AT NOON ON THE DAY OF DETERMINATION AS ASCERTAINED BY THE CENTRAL BANK OF THE COUNTRY AND PROVIDED TO THE NATO CONTRACTING AUTHORITIES OF THE HOST COUNTRY CONCERNED. IF THE RATE CANNOT BE ASCERTAINED FOR THE APPROPRIATE DATE, THE RATE SHALL BE

THAT ASCERTAINED FOR THE PREVIOUS BUSINESS DAY. IF A MULTIPLE EXCHANGE RATE SYSTEM EXISTS FOR ANY OF THE CURRENCIES BEING EVALUATED, THE RATE USED WILL BE THAT APPLICABLE TO THE COMPARABLE TRANSACTION (GENERALLY

REFERRED TO AS THE COMMERCIAL MARKET RATE).

5. THE COMPROMISE PROPOSAL, WHICH SUPERSEDES REF B, IS VERY CLOSE TO WORDING IN THE FOOTNOTE MENTIONED. THIS PROPOSAL RETAINS MANY OF THE ADVANTAGES WE DESIRE AND YET IT ELIMINATES MOST OF THE OBJECTION MADE ABOUT POSSIBLE CURRENCY SPECULATION. THE AMOUNT OF EFFORT EXPENDED BY HOST COUNTRIES IN REVIEWING BIDS MAY BE INCREASED SOMEWHAT BY PERMITTING BIDS IN OTHER THAN HOST COUNTRY'S CURRENCY; HOWEVER, THIS SHOULD NOT BE USED AS A REASON AGAINST IT. REASONABLE EFFORT SHOULD BE EXPENDED TO REALIZE THE MAXIMUM VALUE FROM AVAILABLE INFRASTRUCTURE FUNDS. IN OUR ESTIMATION THE REAL ISSUE IS: IN WHICH CURRENCIES SHOULD NATO ALLOW BIDS TO BE MADE, RATHER THAN: IN WHICH CURRENCY SHOULD THE BIDS BE EVALUATED?

6. RE PARA 5, REF C, CERTAINLY THE AGENCE ECONOMIQUE ET FINANCIERE (AGEFI) COULD BE USED AS A READY REFERENCE BY ANYONE BIDDING OR NEEDING TO KNOW RELATIVELY CURRENT EXCHANGE RATES. HOWEVER, IT WOULD SEEM SUPERFLUOUS TO DESIGNATE AGEFI RATES AS THE RATES TO BE USED FOR COMPARISON OF NATO BIDS IF THE LANGUAGE IN PARA 4 ABOVE IS ADOPTED. IN OUR VIEW, OFFICIAL EXCHANGE RATES SHOULD BE OBTAINED FROM AN OFFICIAL SOURCE IN ANY EVENT.

7. RE PARA 3, REF A. THE COMMERCIAL EXCHANGE RATE  
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FOR U.S. DOLLARS (NOON RATES IN NEW YORK MARKET FOR CABLE TRANSACTIONS) MAY BE OBTAINED FROM THE OFFICE, FISCAL ASSISTANT SECRETARY, U.S. TREASURY, WASHINGTON, D.C. 20220.

8. RE PARA (7), AC/4-DS/926. WE ARE INTERESTED IN ALL REPLIES RECEIVED TO THE QUESTION. KISSINGER

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